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SUBJECT: Turkey Agr Policy - Two Steps Back

Ref: Ankara 2686

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1. (SBU) Summary. Over the past two years, Turkey has implemented regulations that have increasingly restricted imports of agricultural products. Turkey's recent imposition of a new quota system for corn is the latest in a series of moves that have restricted trade. Moreover, Turkish officials have indicated their desire to expand these restrictive practices to other commodities. Turkish parastatals that seemed to be withering on the vine several years ago, have a more active role on the trade side at the expense of the private sector. These actions could mean less than enthusiastic support by Turkey in future WTO discussions on reforming agriculture. End summary.

A Change for the Worse

2. (SBU) Recently, importers and Turkish food and feed processors have increasingly become discouraged by the direction Turkish agriculture policy has taken, particularly in regard to import policy. Turkey is a net importer of agricultural commodities producing less than 50% of its consumption needs for a variety of crops like corn, soybean and cotton. In May, Turkey introduced a new quota system for corn (reftel) which has dismayed many companies. They view the quota as the government attempt to restrict imports and raise domestic commodity prices.

3. (SBU) At a recent meeting, one U.S. business representative stated that over the past two years, trade restrictions have increased dramatically. He had been hopeful when Turkey phased in an IMF/World Bank initiative to eliminate agriculture subsidies and replace them with direct payments to Turkish farmers. For a while, the agriculture sector seemed to be progressing. However, Turkey began using phyto-sanitary, import licenses, import quotas and high tariffs to limit imports. These restrictions have, as a result, artificially increased domestic commodity prices.

First - High Tariffs

4. (SBU) Turkey negotiated fairly high bound rates for agricultural imports that it utilizes to limit imports. Turkey has periodically imposed higher tariffs on rice and corn during the growing seasons in order to protect domestic production. In January 2004, the government raised corn tariffs, which normally ranged from 20 - 35 percent, to 80 percent. Tariffs seem to serve two functions: As a way of increasing domestic prices for commodities and second, as a good source of revenue for the government. Turkish officials note that tariffs are the only means to protect Turkish agriculture against EU and US domestic support programs. In fact, Turkey has made very good use of a number of tools to hinder trade besides tariffs including the use of quotas and import licenses.

Turkish Parastatals - Bigger and Better

15. (SBU) One of the more disturbing developments recently has been the revitalization of Turkish agriculture parastatals. In the recent past, it appeared that these organizations would eventually disappear, replaced by private sector entities and subject to market forces. Unfortunately, organizations like TMO, the Turkish Grain Marketing Organization, and Trakyabirlik, the Sunflowerseed Agricultural Cooperative, are becoming more active in grain and oilseed markets in Turkey. We recently reported on the rice import problems caused in no small part by TMO's purchase of domestic rice at exorbitant prices as well as the recent corn import quotas. According to trade sources, Turkish Foreign Trade Representatives stated their intention to "remake the corn market" in Turkey. Moreover, the government is considering the imposition of a similar system for soybeans. This despite that fact that Turkey grows less than 50 TMT of soy and imports over 1 MMT for its livestock sector.

16. (SBU) These parastatals often take advantage of their position to reap windfall profits by importing duty free but selling at inflated market prices. For example, during the last 2 years, TMO imported corn without paying the 35 percent import duty which private importers paid. TMO then sold the corn on the market for market prices that included the duty. We have been told that Trakyabirlik was given an import license to use a duty-free quota to buy sunflowerseeds from Bulgaria. The sunseeds are in short supply and TrakyaBirlik will sell the sunflowerseed at a premium.

Finding a Way to Protect Farmers

17. (SBU) It is not difficult to understand the motivation behind these moves. Having agreed to eliminate direct subsidies the GOT needed to find a way to support Turkish farmers who are a big political base. In addition to high tariffs and parastatals, no wheat is imported to Turkey unless an equivalent amount of wheat, wheat flour or bread products are exported. Turkey does not issue import licenses for beef or poultry despite the inclusion of these products in bilateral agreements. Wheat prices topped \$300 a ton for poor quality wheat while beef prices are said to exceed those in Geneva. Finally, the government is looking to curb imports in order to reduce an increasing trade imbalance.

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Comment - WTO Discussion to Reform Agriculture
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18. (SBU) Given the government actions, it would appear that Turkey will be very reluctant to support most of the major WTO reform proposals on agriculture currently being discussed. On market access, Turkish officials have repeatedly noted that higher tariffs are necessary to protect Turkish farmers against EU and U.S. farm subsidies. Import quotas and import licenses are also useful tools to slow, if not stop, imports. Turkey will probably not support a phase out of parastatals involved in agriculture trade given the lucrative profits these organizations have reaped in recent years or their contribution to higher prices. On the bright side, Turkish officials have stated that they would support the elimination of export subsidies. However, this is something of a hollow victory, since, as one Turkish official noted, they support their elimination because they don't have the money to subsidize their own exports. If the money were available, this issue too would most likely be off the table.

Edelman